

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 3, 2016/2017

**BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS**

(All sections / Groups)

31 MAY 2017  
2.30 p.m. - 4.30 p.m.  
(2 Hours)

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### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **3 pages** with **4 Questions** only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

**QUESTION 1 (25 MARKS)**

- a) Explain the role of banks in fueling economic growth of a nation. (5 marks)
- b) One of the reasons why financial intermediaries and indirect finance are so important in financial markets is asymmetric information. Explain what asymmetric information is and the problems it creates. You can use examples to explain. (12 marks)
- c) Suppose you are the owner of a newly established small and medium enterprise (SME).
- i. Explain why it is difficult for SMEs to obtain financing by issuing market securities. (5 marks)
  - ii. What would be the likely outlet for you to finance your activities? (3 marks)

**QUESTION 2 (25 MARKS)**

Jamie is considering purchasing a bond of the Amazin Corporation. The bond has a par value of RM1,000 with 10 percent coupon rate and will mature in 5 years. Assuming a yield to maturity of 8%, answer the following questions:

- a) What are the cash flows that he should receive from years 1 to 5 if he were to hold the bond until maturity? (6 marks)
- b) If he plans to hold the bond until maturity, what is the total cash he will receive from the bond after 5 years? Assume that the periodic cash flows are reinvested at 8%. (5 marks)
- c) If he plans to hold the bond only for 2.5 years and then sell the bond, what will be the total cash he will receive after the 2.5 years? Assume that the periodic cash flows are reinvested at 8%. (7 marks)
- d) What is the total cash he will receive from the bonds after 2.5 years if interest rates increased to 9%? How does this compare with the answer in part b ? (7 marks)

**Continued...**

**QUESTION 3 (25 MARKS)**

Briefly define each of the major types of bond market instruments, noting their distinguishing characteristics.

**QUESTION 4 (25 MARKS)**

- a) What triggered the global financial crisis of 2007 – 2009? Describe the situation where banks were reluctant to lend to the public which deteriorated the economy further.

(15 marks)

- b) Describe two similarities and two differences between the U.S. experiences during the Great Depression and those during the global financial crisis of 2007-2009?

(10 marks)

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